

of universal service support. Accordingly, the Commission has the authority to institute comprehensive universal service reform and to establish inducements for the states to reform residential local prices and end reliance on implicit subsidies from various sources such as toll services, intrastate access (both originating and terminating), business services, and statewide average prices by a date certain.⁵⁸

An additional basis for implementing end user pricing reform is that below-cost residential local prices are inconsistent with the local competition provisions of the 1996 Act and, in fact, constitute a barrier to local competition. A coalition of CLECs and wireless carriers recently filed a white paper on universal service reform that argued new entrants have difficulties competing against an ILEC that has “access to implicit hidden support” that are not available to the new entrant.⁵⁹ The coalition stated that:

[F]ederal and state programs must be reformed to identify and eliminate this costly hidden support, which distorts the competitive market. Implicit support should be replaced with explicit, portable universal service funding mechanisms that provide sufficient support, targeted to those areas that need it most, on an equal and competitively neutral basis to incumbents and new entrants alike.⁶⁰

⁵⁸ Even though the Commission may not have the authority to mandate bill and keep for intrastate originating switched access, the statutory prohibition on implicit subsidies applies to *all* interstate and intrastate services. Because state regulations must be consistent with the Act, states cannot continue to use intrastate access services to subsidize below-cost residential service. Thus, the Commission can prohibit states from using intrastate originating access prices to subsidize residential prices and exhort states to adopt bill and keep for intrastate originating switched access services as part of the implementation of a nationwide bill and keep regime.

⁵⁹ Competitive Universal Service Coalition, *White Paper: The Road to Competitive Universal Service Reform*, at 6 (July 2001).

⁶⁰ *Id.* The white paper identifies intrastate access charges and geographic averaging of ILEC rates as two types of implicit support that are not available to new entrants. *Id.* at 8.

SBC agrees that implicit subsidies must be eliminated and that state pricing structures that maintain implicit subsidies are inconsistent with the local competition provisions of the 1996 Act and should be preempted to the extent they constitute a barrier to competitive entry.⁶¹ The 1996 Act preserves state access regulations and policies only to the extent they do not “substantially prevent implementation of the requirements” of Section 251.⁶² There is no question that state pricing structures have been impeding local competition for the past five years and will continue to do so as long as they continue to maintain below-cost residential prices that are supported by implicit subsidies.

In addition to end user pricing reform, additional universal service funding may be needed in some areas to maintain affordable residential service prices in a bill and keep regime. SBC’s proposal to conduct an affordability analysis satisfies the universal service requirements of Section 254. Indeed, Sections 254(b)(1) and 254(i) expressly incorporate an affordability standard for universal service, which the Commission has never addressed.⁶³ By establishing a uniform affordability standard that is based on household median income and supplemented by Lifeline support, the proposal also satisfies the requirement that rates in rural areas must be “reasonably comparable” to rates in urban areas.⁶⁴ Indeed, any universal service mechanism that failed to take into account median income would be inherently *unreasonable*, insofar as it would result in

⁶¹ 47 U.S.C. § 253(a) (“No State or local statute or regulation, or other State or local requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service.”).

⁶² 47 U.S.C. § 251(d)(3).

⁶³ 47 U.S.C. §§ 254(b)(1), 254(i).

⁶⁴ 47 U.S.C. § 254(b)(3).

the flow of subsidies to affluent communities that do not need them. Of course, the Commission also must ensure that its reforms produce “specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.”⁶⁵

B. The Commission Can Adopt A Uniform Bill and Keep Regime for Interstate and Intrastate Traffic

The Commission also has the authority to adopt a uniform bill and keep regime for both interstate and intrastate traffic. The Commission has plenary authority under Sections 201(g) and 201(b) to implement a bill and keep structure and establish an end user recovery mechanism for interstate switched access. With respect to intrastate switched access, Section 251(b)(5) imposes a duty on all LECs to “establish reciprocal compensation arrangements for the transport and termination of telecommunications.”⁶⁶ As the Commission recently concluded in the *ISP Inter-carrier Compensation Order*, Section 251(b)(5) applies on its face to the transport and termination of *all* telecommunications traffic without exception.⁶⁷ Congress did exempt certain telecommunications services – namely, exchange access, information access and exchange services – from the reciprocal compensation obligation by preserving pre-1996 Act regulation of such services until those regulations are “explicitly superseded by regulations prescribed by the Commission.”⁶⁸ This exemption does not limit the

⁶⁵ 47 U.S.C. § 254(b)(5).

⁶⁶ 47 U.S.C. § 251(b)(5).

⁶⁷ *ISP Inter-carrier Compensation Order* at ¶ 31.

⁶⁸ 47 U.S.C. § 251(g). As the Commission acknowledged in the *ISP Inter-carrier Compensation Order*, Section 251(g) does not expressly preserve preexisting intrastate access regimes, because it applies only to the Commission’s traditional policies and

Commission's authority to establish intercarrier compensation rules governing all telecommunications traffic, but rather gives the Commission flexibility to transition from its existing carrier access charge regime to a new regulatory regime such as bill and keep.

Admittedly, the Commission did not define the universe of "telecommunications" that is subject to Section 251(b)(5) in the *ISP Intercarrier Compensation Order*. Indeed, the Commission stated that Section 251(g) "highlights an ambiguity in the scope of 'telecommunications' subject to Section 251(b)(5)" and demonstrates that the term must be construed in light of other provisions of the statute.⁶⁹ However, Section 251(g) does not constitute a limitation on the Commission's jurisdiction, and the Commission has identified no statutory provision other than Section 251(g) that exempts any category of telecommunications traffic from the requirements of Section 251(b)(5). The logical conclusion is that the Commission has the authority under Sections 251(b)(5) and 251(g) to implement a uniform bill and keep regime for interstate and intrastate traffic.

The scope of Section 251(b)(5) ~~is~~ limited by the fact that it applies only to transport and termination of telecommunications, and not origination.⁷⁰ While the Commission does not appear to have the authority to mandate bill and keep for originating intrastate access services, the Commission does have the authority to require

authority over interstate access services. *Id.* at n.66. Nevertheless, the Commission excluded intrastate access traffic from being automatically superseded by the reciprocal compensation provisions of Section 251(b)(5) so as not to disrupt existing intrastate access mechanisms. *Id.* Accordingly, SBC proposes a reasonable transition plan for both interstate and intrastate access services that minimizes the disruption to these preexisting regimes.

⁶⁹ *Id.* at n.66.

⁷⁰ Section 251(b)(5) also is limited to telecommunications traffic carried on LEC networks and interconnection or transport arrangements involving a LEC network.

that states cease relying on intrastate switched access services (both originating and terminating) to subsidize residential services. Moreover, to the extent states would retain authority to establish non-subsidizing prices for originating intrastate access services, the Commission should exhort states to transition to bill and keep so as not to stand in the way of a nationwide bill and keep regime

The transition from an intercarrier compensation regime to a bill and keep regime does not intrude on state authority over intrastate facilities to any greater degree than the Commission's current rules. Consistent with the broad scope of Section 251(b)(5), the Commission already has adopted cost recovery rules for *local* traffic. For example, the Commission has defined the components of transport **and** termination and applied its TELRIC pricing standard for interconnection and unbundled elements to the transport and termination of traffic.⁷¹ States were given three options for establishing transport and termination rate levels: (i) conduct a thorough review of studies prepared using the Commission's TELRIC methodology; (ii) adopt the Commission's default proxy; or (iii) order a bill and keep arrangement in certain circumstances.⁷² A bill and keep structure is merely a set of cost recovery rules that changes the primary source of recovery for transport and termination from carriers to end users.

⁷¹ *In the Matter of Telecommunications Act of 1996: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, CC Docket Nos. 96-98 and 95-185, First Report and Order, 11 FCC Rcd 15499, 16015-16 (1996), *aff'd in part and rev'd in part* Iowa Utils Bd. v. FCC, 120 F.3d 753 (8th Cir. 1997), *aff'd in part and rev'd in part sub nom. AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 366 (1999).

⁷² *Id.* at ¶ 1055.

Moreover, the Supreme Court has confirmed the Commission's jurisdiction to adopt rules governing matters to which the 1996 Act applies.⁷³ It held that Section 201(b) provides the Commission with rulemaking authority to carry out the "provisions of this Act," which includes the provisions of Sections 251 and 252 added by the 1996 Act.⁷⁴ The Supreme Court concluded that the Commission's prescription of a pricing methodology through rulemaking does not prevent the states from establishing rates, because it is the states that "determine the concrete result in particular circumstances."⁷⁵ The Commission, therefore, may prescribe uniform bill and keep rules for all telecommunications subject to Section 251(b)(5) without infringing on the jurisdiction of the states. In addition, Section 252(c) requires states to assure compliance with the regulations prescribed by the Commission pursuant to Section 251 and the pricing standards of Section 252(d),⁷⁶ and Section 251(d) preserves state access regulations only to the extent they are consistent with and do not interfere with the implementation of Section 251.⁷⁷ These statutory provisions all confirm the Commission's authority to implement a uniform bill and keep regime for interstate and intrastate traffic.

Just as the Commission previously established general reciprocal compensation pricing rules for local traffic, it has the authority to adopt general end user recovery rules to facilitate the implementation of bill and keep. Pursuant to Sections 251(i) and 201(a),

⁷³ *AT&T Corp. v. Iowa Util. Bd.*, 525 U.S. 366,380.

⁷⁴ *Id.* (citing 47 U.S.C. § 201(b)).

⁷⁵ *Id.* at 384.

⁷⁶ 47 U.S.C. § 252(c).

⁷⁷ 47 U.S.C. § 251(d).

the Commission is responsible for replacing interstate carrier access charges with comparable recovery from end users. This can be accomplished by various mechanisms (*e.g.*, by increasing the existing Subscriber Line Charge), but the most pro-competitive approach would be for the Commission to give all carriers the flexibility to determine how to recover these interstate costs from end users.

With respect to local and intrastate switched access traffic, the Commission has the authority pursuant to Sections 201(b), 251(d) and 251(i) to require that states transition to bill and keep and establish end user recovery mechanisms by a date certain to facilitate the implementation of a nationwide bill and keep regime. Only by adopting uniform bill and keep rules that apply to intrastate switched access traffic can the Commission prevent regulatory arbitrage and produce the desired efficiencies of a bill and keep regime. Further, as discussed in the previous section, end user recovery at the state level is an essential component of a nationwide bill and keep regime that is consistent with Sections 251(b)(5) and 252(d)(2). Thus, the Commission has an obligation to ensure that end user recovery mechanisms are in place so these statutory requirements are satisfied.

In any event, any jurisdictional concerns raised by a nationwide bill and keep regime ultimately may be rendered moot by technological advancements. In the *ISP Inter-carrier Compensation Order*, the Commission stated that Section 251(i) affirms the Commission's role in developing pricing and compensation mechanisms for traffic (*e.g.*, Internet traffic) that "travels over convergent, mixed, and new types of network architectures." Oregon PUC Commissioner Joan Smith, President of the NARUC

Telecommunications Committee, recently discussed the Inter-carrier Compensation proceeding with the NARUC board and acknowledged that regulators cannot “jurisdictionally apportion bits, and once [digital] traffic crosses the switch we don’t know what it is.”⁷⁸ Thus, the widespread deployment of packet networks and other new technologies will have direct implications for the jurisdictional issues raised in this proceeding.

C. The Commission Can Adopt a Mandatory Bill and Keep Regime If It Ensures There are End User Recovery Mechanisms

A mandatory bill and keep regime appears to be consistent with the reciprocal compensation provisions of the Act, provided that the Commission ensures there are end user recovery mechanisms in place. Section 251(b)(5) states that each LEC has the duty to “establish reciprocal compensation arrangements for the transport and termination of telecommunications.”⁷⁹ The purpose of Section 251(b)(5) is to ensure (1) that carriers establish arrangements for the transport and termination of traffic, which clearly serves the public interest by promoting competition and facilitating the exchange of traffic among various networks,” and (2) that each carrier is compensated for transport and termination under such an arrangement. There is nothing in the language of Section 251(b)(5) that expressly requires a system based solely on inter-carrier compensation for transport and termination, as opposed to a system (like bill and keep) in which a carrier

⁷⁸ “NARUC Notebook,” *Communications Daily* at 10 (July 20, 2001).

⁷⁹ 47 U.S.C. § 251(b)(5).

⁸⁰ See *Access Charge Reform and Reform of Access Charges Imposed by Competitive Local Exchange Carriers*, CC Docket No. 96-262, Seventh Report and Order and Further Notice of Proposed Rulemaking, FCC 01-146, at ¶ 93 (rel. April 27, 2001) (*CLEC Access Charge Order*).

receives some or all of its compensation from its own end user. At a minimum, however, Section 251(b)(5) must be read to require that each carrier in an arrangement for the exchange of traffic is compensated for performing transport and termination functions.

This interpretation is supported by Section 252(d)(2), which states that for purposes of ILEC compliance with Section 251(b)(5), a reciprocal compensation arrangement is just and reasonable only if it provides each carrier with “mutual and reciprocal recovery” of its costs associated with transporting and terminating traffic that originates on the other carrier’s network.⁸¹ Once again, this provision is focused on each carrier’s ability to *recover* its costs in an interconnection arrangement, and does not necessarily require that carriers *pay* each other intercarrier compensation. SBC agrees with the Commission that a bill and keep regime – to the extent it also ensures there are end user recovery mechanisms – appears to satisfy the “mutual and reciprocal recovery of costs” requirement of Section 252(d)(2)(A).⁸²

It should be noted that, as a practical matter, there would be many cases where carriers would continue to exchange compensation under SBC’s bill and keep proposal. For example, a transiting carrier that does not have a retail relationship with an end user for transport would recover its costs from another carrier. In addition, the calling party’s carrier may elect to rely upon the terminating carrier’s transport and pay the terminating carrier for the use of its facilities. Thus, SBC’s bill and keep proposal establishes a

⁸¹ 47 U.S.C. § 252(d)(2)(A).

⁸² *NPRM* at ¶ 75.

framework that provides carriers with the “mutual and reciprocal recovery of costs,” either from end users or other carriers.⁸³

The fact that Section 252(d)(2)(B) refers to bill and keep as an example of an arrangement that involves the “offsetting of reciprocal obligations” does not limit the Commission’s authority to adopt a mandatory bill and keep regime only to situations in which traffic flows are balanced. Section 252(d)(2)(B) refers to offsetting *obligations*, not offsetting *payments*. Although the Commission previously limited the application of bill and keep to situations where traffic flows were roughly balanced, it did so primarily because it assumed that the calling party was the cost causer and, hence, responsible for paying for a call. Thus, under the Commission’s earlier view, the called party’s carrier could not recover its costs from its end users under a bill and keep regime. This underlying assumption – that the called party’s carrier is not, and could not be, compensated by the called party – clearly is incorrect. Indeed, the Commission recognized as much in the *ISP Intercarrier Compensation Order*⁸⁴ and the *CLEC Access Charge Order*, both of which require CLECs to recover transport and termination costs

⁸³ CLECs may argue that they may not be able to recover their transport and termination costs from end users, but that would be the case only if they are forced to compete against ILEC prices kept below cost and maintained with implicit subsidies. SBC’s proposal addresses this problem by providing for end user pricing reform as part of the implementation of bill and keep.

⁸⁴ *ISP Intercarrier Compensation Order* at n. 151 (“As non-dominant carriers, CLECs can charge their end-users what the market will bear. . . . Accordingly, we permit CLECs to recover any additional costs of serving ISPs from their ISP customers.”).

from end users to the extent the transitional intercarrier charges do not provide for full recovery.⁸⁵

Although the Commission has recognized that CLECs have the opportunity to recover their transport and termination costs from end users, the Commission has consistently avoided its obligation to address ILEC recovery and, instead, has deferred that issue to the states. For example, when the ILECs argued in 1997 that they could not recover their costs associated with Internet traffic, the Commission told them to take their concerns to the states.⁸⁶ The Commission should not be surprised that ILECs have opposed mandatory bill and keep rules in cases where the Commission has left them with the problem of seeking authority for such recovery from state commissions.⁸⁷ Thus far, the ILEC's ability to recover their transport and termination costs from end users has proven almost entirely theoretical, as a result of inaction on the part of the Commission and the states.

The Commission must assume responsibility for ensuring that end user recovery mechanisms are established as part of the transition to bill and keep. In its recent decision reversing and remanding the Commission's *Ninth Universal Service Order* in

⁸⁵ *CLEC Access Charge Order* at ¶ 39 ("Accordingly, CLECs remain free to recover from their end users any greater costs that they incur in providing either originating or terminating access services.").

⁸⁶ *ISP Intercarrier Compensation Order* at n.151 ("As the Commission said in 1997 if ILECs feel that these [end-user charges] are so low as to preclude recovery, they should seek relief from their state commissions.").

⁸⁷ SBC also challenged the Commission's authority to adopt mandatory pricing rules for reciprocal compensation. SBC Comments in CC Docket No. 96-98, at 51. Of course, that issue is no longer relevant because the Supreme Court subsequently held that the Commission has the authority to prescribe pricing standards under the 1996 Act. *Iowa Utilities Board*, 525 U.S. at 384.

the universal service proceeding, the Tenth Circuit held that the Commission could not rely on state mechanisms to achieve the universal service requirements of Section 254 without “undertak[ing] the responsibility to ensure that the states act.”⁸⁸ As the court explained:

[T]he FCC may not simply assume that the states will act on their own to preserve and advance universal service. It remains obligated to create some type of inducement – a “carrot” or a “stick,” for example, or simply a binding agreement with the states – for the states to assist in implementing the goals of universal service.⁸⁹

The Commission is in a similar position in this proceeding – it cannot rely on state action to provide “mutual and reciprocal recovery” of costs without establishing requirements or agreements with the states to ensure that the statutory requirements of Sections 251(b)(5) and 252(d)(2) are satisfied. Further, if the Commission concludes that it does not have the authority to address the issue of ILEC end user recovery, then it cannot implement a mandatory bill and keep regime.

The Commission also must ensure that ILEC end user recovery is not limited to the forward-looking cost of providing service. The Commission has utilized a forward-looking cost methodology only in the specific context of setting the rates that *competing carriers* must pay for reciprocal compensation and unbundled network elements. Under a bill and keep regime, the costs of transport and termination are included in the overall retail price of the service. A forward-looking cost methodology is not an appropriate standard for setting rates for retail services, and would be at odds with the Act’s goal of

⁸⁸ *Qwest v. FCC*, 2001 U.S. App. LEXIS 17044, at * 31.

⁸⁹ *Id.* at * 30-31

promoting local competition. Instead, end user prices must be set at levels that are self-supporting and therefore attractive to competitors.

VI. Benefits of SBC's Comprehensive Reform Plan

SBC's comprehensive reform plan addresses many of the problems caused by the current intercarrier compensation regime and end user pricing rules. First, replacing implicit subsidies with explicit recovery would encourage competitive entry in all market segments by allowing carriers to recoup the cost of providing service and earn a reasonable profit. Rather than regulators attempting to manufacture competition through artificially low wholesale prices, competitors would have market incentives to serve residential customers, in addition to business customers. The statutory goal of vibrant and sustainable competition in all segments of the local market will be achieved only when carriers can earn a profit by serving residential customers and customers in high-cost areas.

The gradual deregulation of pricing envisioned under SBC's plan would further benefit consumers by enabling all carriers to compete head-to-head in the market. The Commission has recognized that giving carriers pricing flexibility leads to efficient pricing and greater competition.⁹⁰ It enables carriers to tailor their offerings to customer needs and to respond quickly as market conditions and technologies change. Thus, the pro-competitive benefits of bill and keep would be enhanced by greater pricing flexibility than the current regulatory regime.

⁹⁰ *Access Charge Reform, et al.*, CC Docket No. 96-262, et al., Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 14221, 14257 (1999), *aff'd* *WorldCom, Inc. v. FCC*, 238 F.3d 449 (D.C. Cir. 2001).

Second, the reform plan provides a specific, predictable and sufficient source of universal service funding. The current system of implicit subsidies is not sustainable in a competitive environment, and it fails to comply with the statutory requirement that universal service support be specific and predictable. By implementing a combination of residential local service pricing reform and universal service support reform, the Commission can end the reliance on implicit subsidies and ensure that end users have access to affordable local telephone service in a bill and keep regime. Implementation of these reforms also would satisfy the Commission's obligation to comply with the Tenth Circuit's remand in *Qwest v. FCC*.

In addition to eliminating implicit subsidies, SBC's plan would ensure competitive and technological neutrality by expanding the contribution base for the universal service fund to include all interstate retail telecommunications services. For example, it would count revenues from IP telephony the same as all other telecommunications services. Likewise, cable operators that provide broadband services should would be required to contribute to the universal service fund to the same extent ILECs are required to contribute based on DSL revenues. The universal service reforms recommended in the plan accommodate convergence by minimizing its impact on the preservation of universal service.

Third, SBC's reform plan eliminates regulatory arbitrage opportunities by applying uniform rules to all types of traffic and requiring carriers to recover network access costs from their own end users." Under a uniform bill and keep regime, carriers

⁹¹ *NPRM* at ¶ 52. The Commission asks whether bill and keep would create any new arbitrage problems. *Id.* at ¶ 58. It appears that bill and keep would eliminate most opportunities for regulatory arbitrage. Nevertheless, the Commission should make it

no longer would be able to generate huge reciprocal compensation payments by maximizing the amount of one-way traffic they carry. Nor would carriers be able to improperly shift costs to other carriers, rather than charging their own end users, which has happened with carriers serving ISPs. While carriers with predominantly or exclusively inbound traffic would still be able to avoid some transport costs, they would at least have to recover the costs associated with network access from their own customers. That should significantly reduce the incentive to focus on end users with certain traffic patterns.

Moreover, under SBC's bill and keep plan, new technologies such as IP telephony would have to compete with circuit-switched telephony on their own merits, rather than as arbitrage mechanisms for avoiding switched access charges. In addition, this rule should solve the so-called "terminating monopoly" problem and eliminate concerns about terminating LECs exercising market power.⁹² A carrier no longer would have an incentive to charge excessive terminating access charges because such charges would be paid by the carrier's own end user, rather than another carrier.

These types of regulatory arbitrage problems cannot be solved by attempting to modify the existing intercarrier compensation rules. As the Commission acknowledged, the problem is not just whether regulators can "get the rate right" in an intercarrier compensation regime.⁹³ Regulatory arbitrage will continue to exist in a system of calling

clear that it will address any arbitrage issues or any other unexpected problems that may arise in a bill and keep regime.

⁹² *Id.* at ¶ 53.

⁹³ *ISP Intercarrier Compensation Order* at ¶ 76.

party network pays, regardless of the prices that are established, because carriers will always have some ability to improperly shift costs to other carriers.

Fourth, the reform plan resolves POI disputes that have arisen under the current rules by establishing mandatory end user recovery rules and creating uniform default transport rules. All carriers would have a comparable obligation to deliver traffic to the called party's end office regardless of their local calling area. In addition, a carrier would be required to establish a POI per **LATA** if it decided to locate its switch outside the **LATA** of the called party. The POI would simply be a designated hand-off point for purposes of determining the carrier's responsibility for the cost of transport. These rules would encourage connectivity between networks on terms that are fair to both carriers. Moreover, designating responsibility for transport obligations and corresponding recovery of transport costs on an end office basis will minimize disruption of existing facilities because many carriers already have established direct connections to ILEC end offices. SBC would be concerned that an alternative default rule would result in significant stranded facilities to its end offices if carriers reconfigured their networks for the sole purpose of minimizing their transport obligation.

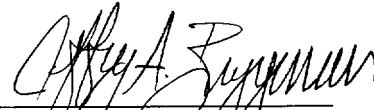
VII. Conclusion

SBC has crafted a comprehensive reform plan that lays the groundwork for implementing a uniform bill and keep structure for all telecommunications traffic between a LEC network and another carrier's network (including rules addressing transport arrangements). The Commission cannot consider its proposal to replace carrier access charges with bill and keep solely as an intercarrier compensation issue, because carrier access charges are an important component of the outdated system of implicit

subsidies that is used to maintain below-cost prices for residential local telephone service. This system of implicit subsidies is plainly contrary to the local competition and universal service requirements of the 1996 Act and must be eliminated prior to implementing a bill and keep regime.

SBC's bill and keep proposal contains a number of default rules that are designed to encourage negotiations and minimize the need for regulation. The Commission also must ensure that end user recovery mechanisms are in place as part of any transition to a uniform bill and keep regime. In addition, the Commission should give ILECs the same flexibility as other carriers to offer end users a range of calling plans at market-based prices so they can respond to market forces in a bill and keep environment.

Respectfully Submitted,



Jeffrey A. Brueggeman
Gary L. Phillips
Roger K. Toppins
Paul K. Mancini

SBC Communications Inc.
1401 I Street NW 11th Floor
Washington, D.C. 20005
Phone: 202-326-8911

Its Attorneys

August 21, 2001

CERTIFICATE OF SERVICE

I, Loretia Hill, do hereby certify that on this 21st Day of August, a copy of the foregoing
“Comments” was served by hand delivery to the parties listed below.

Wanda Harris
Common Carrier Bureau
Federal Communication Commission
445 12th Street SW
Washington, DC **20554** (diskette only)

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC **20554**

Jane Jackson
Common Carrier Bureau
Federal Communication Commission
445 12th Street SW
Washington, DC **20554**

ITS
445 12th Street SW
Washington, DC **20554**(diskette and copy)

Paul Moon
Common Carrier Bureau
Federal Communication Commission
445 12th Street SW
Washington, DC **20554**



Loretia Hill

ATTACHMENT ONE

Bill and Keep Glossary

Access Service Area (ASA) represents the geographic area within which traffic is exchanged in the event service providers are unable to reach a negotiated agreement regarding **network-to-network transport** arrangements. Existing LATAs should serve as initial ASAs.

End Office refers to the building location where the loop facility (or its equivalent) terminates and **end office switching** occurs. An **end office** also represents the final **point of interconnection** to which the calling party's service provider can extend its **network-to-network transport** facilities without actually providing **network access** functions to the called party.

End Office Switching is the network component that aggregates, concentrates and distributes calls on a loop-to-loop, loop-to-transport and transport-to-loop basis.

End User means any customer that is not a carrier except that a carrier other than a telephone company shall be deemed to be an "end user" when such carrier uses a telecommunications service for administrative purposes and a person or entity that offers telecommunications services exclusively as a reseller shall be deemed to be an "end user" if all resale transmissions offered by such reseller originate on the premises of such reseller.

Interconnection is the physical linking of two or more networks for the purpose of exchanging traffic.

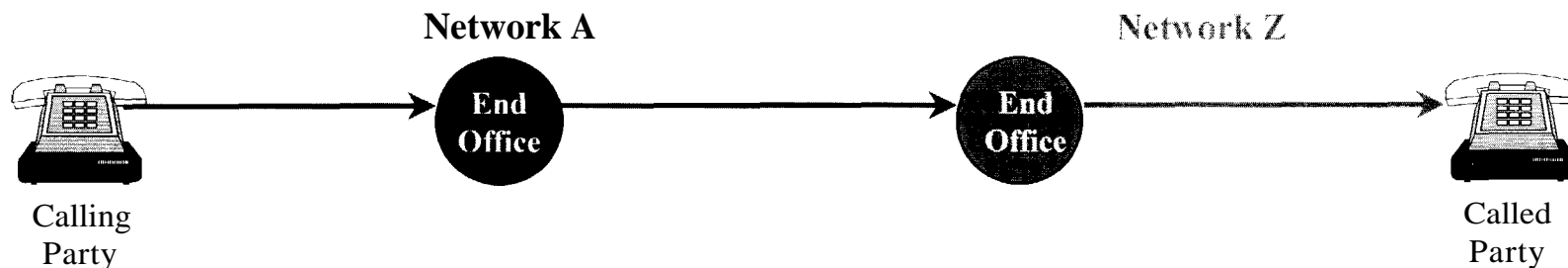
Network Access is comprised of the following four service components: 1) the loop facility (or its equivalent) that connects an end user's premises with the **end office** 2) the **end office switching** functions necessary to make and to receive calls 3) transport necessary to complete calls on an intra-network basis 4) **network-to-network transport**.

Network-to-Network (N2N) Transport refers to transmission facilities and tandem switching utilized to interconnect networks.

Point of Interconnection (POI) refers to the physical location at which two networks connect.

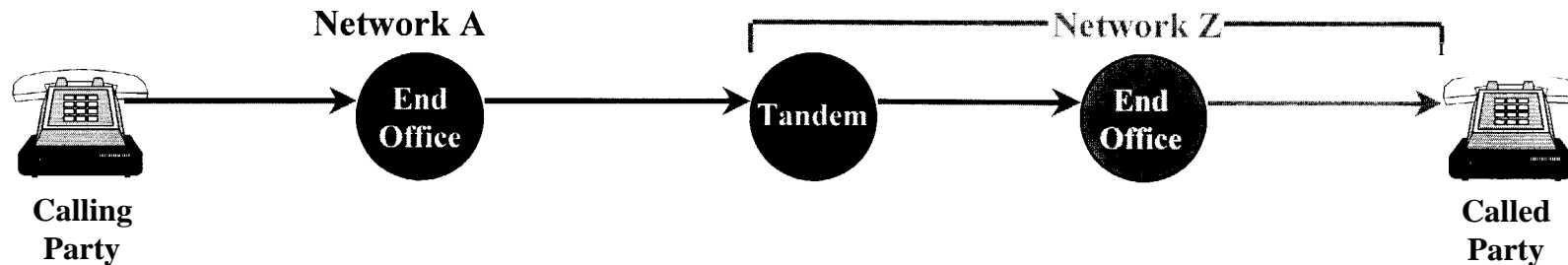
ATTACHMENT TWO

Figure 1a - Local Call



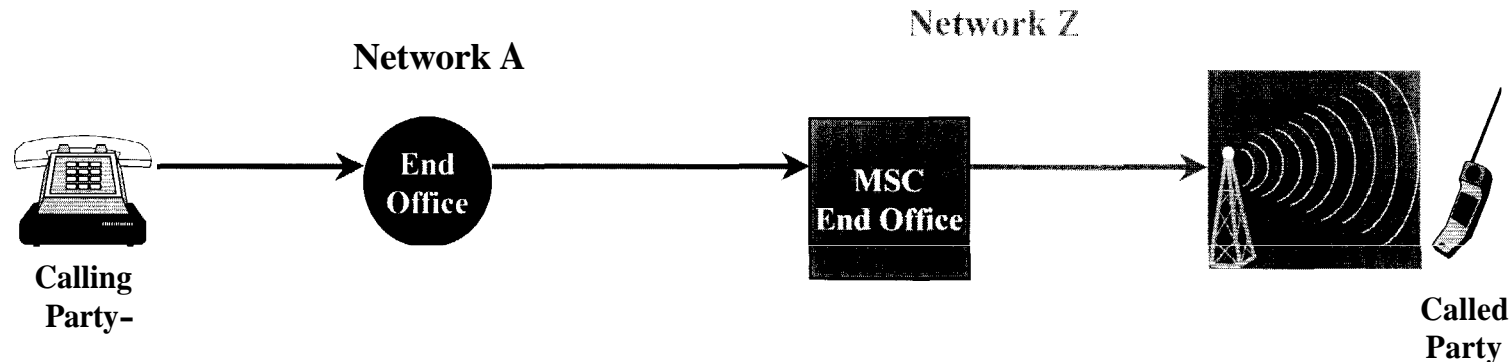
In this example, the calling party has a retail relationship with Network A for network access which includes transport of local calls. Network A is responsible for transporting local calls between the end office of the calling party and the end office of the called party. Network A recovers its loop, originating end office switching and transport to reach the end office of the called party through its retail relationship with the calling party. Network Z recovers its terminating end office switching and loop from its end user through the retail relationship for network access.

Figure 1 b - Local Call



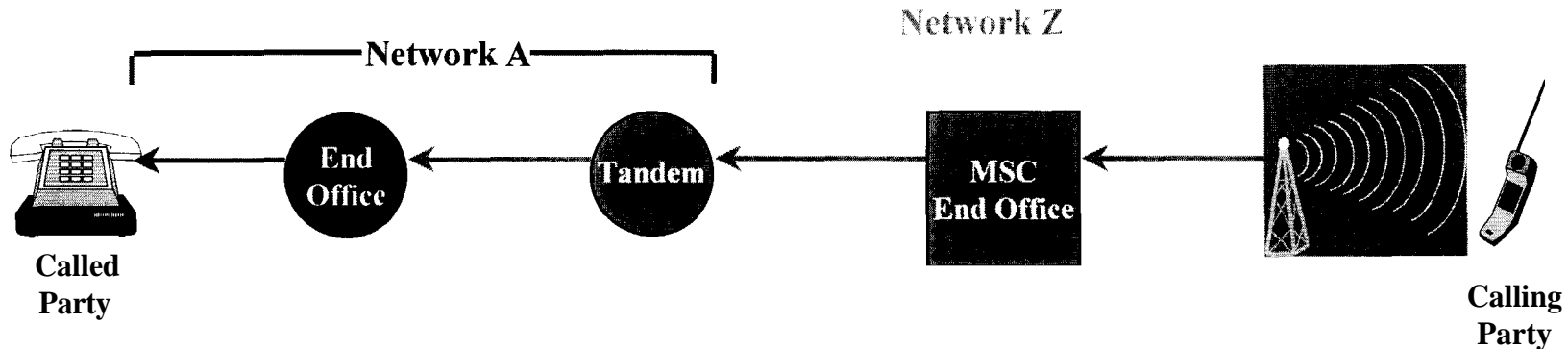
In this example, the calling party has a retail relationship with Network A for network access which includes transport of local calls. Network A is responsible for transporting local calls between the end office of the calling party and the end office of the called party. Network A elects to pay for the use of Network Z's tandem switching and common transport to reach the end office of the called party. Network A recovers its loop, originating end office switching, transport to the tandem and its payment to Network Z for tandem switching and common transport through its retail relationship with the calling party. Network Z recovers its terminating end office switching and loop from its end user through the retail relationship for network access.

Figure 1c - Local Wireline to Wireless Call



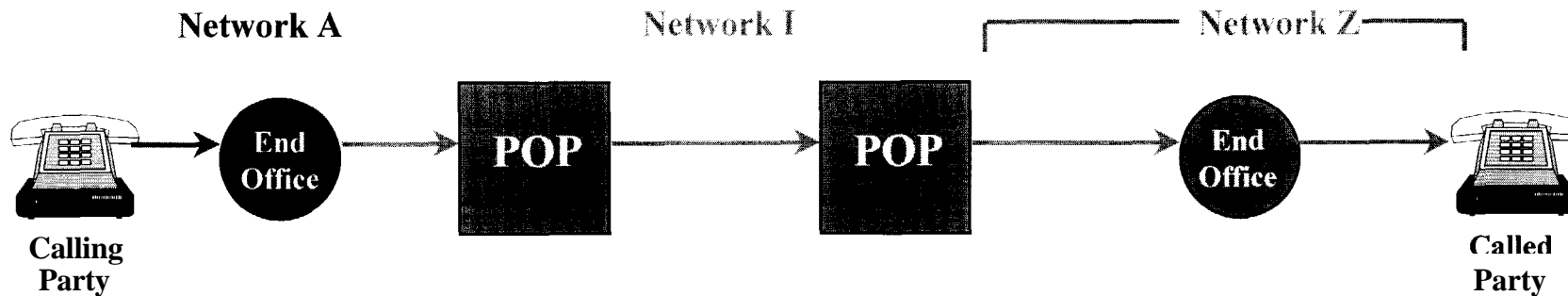
In this example, the calling party has a retail relationship with Network A for network access which includes transport of local calls. Network A is responsible for transporting local calls between the end office of the calling party and the end office of the called party. Network A recovers its loop, originating end office switching and transport to reach the MSC (end office) of the called party through its retail relationship with the calling party. Network Z recovers its terminating MSC (end office) switching and loop equivalent facilities (cell site transport and cell sites) from its end user through the retail relationship for network access.

Figure 1d - Local Wireless to Wireline Call



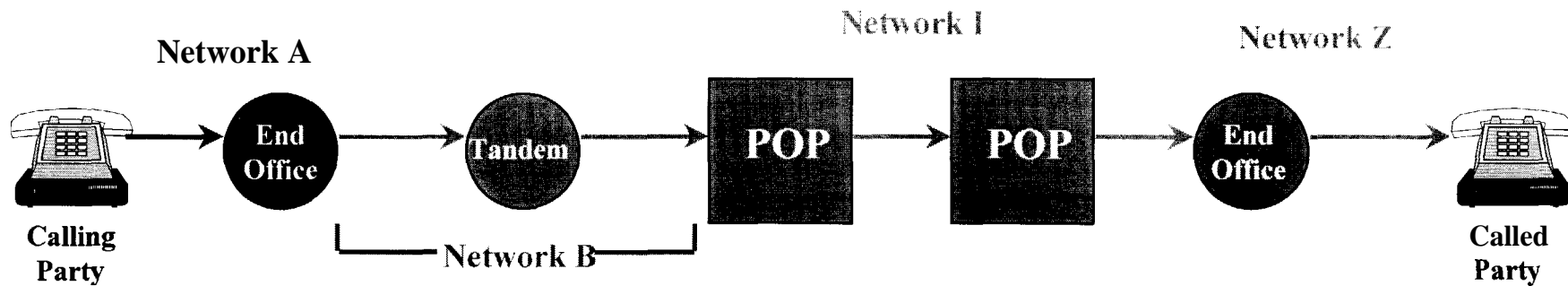
In this example, the calling party has a retail relationship with Network Z for network access which includes transport of local calls. Network Z is responsible for transporting local calls between the MSC (end office) of the calling party and the end office of the called party. Network Z elects to pay for the use of Network A's tandem switching and common transport in order to reach the end office of the called party. Network Z recovers its loop equivalent facilities (cell sites and cell site transport), MSC (end office) switching, transport facilities to the tandem and its payment to Network A for tandem switching and common transport through its retail relationship with the calling party. Network A recovers its terminating end office switching and loop from its end user through the retail relationship for network access.

Figure 2a - Long Distance Call



In this example, the calling party has a retail relationship with Network A for network access which includes transport of local calls and with Network I for the transport of long distance calls. Network I is responsible for transporting long distance calls between the end office of the calling party and the end office of the called party. Network A recovers loop and originating end office switching from the calling party through its retail relationship for network access. Network I elects to pay Network Z for the use of its transport facilities to reach the end office of the called party. Network I recovers its transport facilities from the end office of the calling party, its interexchange switching and transport and its transport payment to Network Z through its retail relationship with the calling party. Network Z recovers its terminating end office switching and loop from its end user through the retail relationship for network access.

Figure 2b - Long Distance Call



In this example, the calling party has a retail relationship with Network A for network access which includes transport of local calls and with Network I for the transport of long distance calls. Network I is responsible for transporting long distance calls between the end office of the calling party and the end office of the called party. Network A recovers loop and originating end office switching from the calling party through its retail relationship for network access. Network I elects to pay Network B for the use of its transport and tandem switching facilities between the end office of the calling party and Network I's POP. Network I recovers its payment to Network B, its interexchange switching and its transport to reach the end office of the called party through its retail relationship with the calling party. Network Z recovers its terminating end office switching and loop from its end user through the retail relationship for network access.